

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS AND ELECTRIC)	
RATES OF LOUISVILLE GAS AND)	CASE NO. 90-158
ELECTRIC COMPANY)	

O R D E R

IT IS ORDERED that the Louisville Gas and Electric Company ("LG&E") shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, on or before April 11, 1991. Each item of the data requested should be tabbed and numbered. When several sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. The corporate reorganization of LG&E referred to as "downsizing" occurred during the last quarter of 1989. The rates approved in the December 21, 1990 Order in this proceeding were effective January 1, 1991. Provide the following information:

a. Explain how the downsizing affected LG&E's rates for service from late 1989 through calendar year 1990.

b. Explain what benefits LG&E's ratepayers received from late 1989 through calendar 1990 due to the downsizing.

2. Concerning LG&E's reference to Case No. 89-030,¹ its coal contract buy out case, explain whether LG&E recorded the coal contract buy out amounts as an expense or a deferred debit.

3. In Case No. 10064² the Commission removed the test-year costs associated with the development of LG&E's management information systems, and did not allow any amortization of those removed costs. Provide a detailed explanation of why the Commission should therefore allow the amortization of the downsizing costs.

4. Concerning LG&E's reference to a recent case involving the Public Service Company of New Mexico, provide copies of all available information concerning the circumstances related to Project Turnaround.

5. Concerning LG&E's reference to a recent case involving the Northern Indiana Public Service Company, provide copies of all available information concerning the circumstances related to the labor cost reduction program.

6. Concerning LG&E's proposal to amortize the downsizing costs over a 3-year period, provide the following information:

a. Indicate the approximate number of years LG&E and its ratepayers may expect the benefits from the downsizing to continue.

¹ Case No. 89-030, Application of Louisville Gas and Electric Company for an Order Approving Certain Accounting Treatment of Amounts Paid for Coal Contract Termination, Order dated June 29, 1989.

² Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, Order dated July 1, 1988.

b. Explain why it is more reasonable to amortize the downsizing costs over a 3-year period rather than over a period which more closely matches the period of expected benefits.

7. Provide the appropriate citations to the applicable sections of the Financial Accounting Standards Nos. 87 and 88, concerning the proper accounting treatment for the downsizing costs.

8. In the December 21, 1990 Order, the Commission removed from test-year labor expenses amounts related to LG&E's Supplemental Executive Retirement Plan ("SERP"). Approximately \$2,000,000 of the downsizing costs are related to SERP. Provide a detailed explanation as to why the amounts related to SERP included in the downsizing costs should be included in an amortization adjustment, considering the Commission's decision to exclude these expenses from test-year labor costs.

The following questions deal with the transactions LG&E recorded in Account No. 921, Office Supplies and Expenses, during the test year. Specifically, these questions focus on the "common" 921 subaccount, 3-921. These questions are taken from pages 8 through 13 of Mr. Fowler's rehearing testimony, Fowler Schedules B, C, D, and E of the rehearing testimony, and the microfiche detail records of Account No. 921 provided by LG&E on December 3, 1990.

9. Based on Mr. Fowler's responses on pages 9 and 10, and except where otherwise noted in Mr. Fowler's testimony, indicate whether it is correct that all charges in Account No. 3-921 which

were subsequently allocated to other accounts were in fact allocated to either the electric or gas subaccounts of 921.

10. During the tracing of several of the expenditures listed in Fowler Schedules B through E to the microfiche records, it has become apparent that the amounts shown on Schedules B through E are net of any applicable sales taxes. For the items listed on each of these schedules, provide the amount of applicable sales taxes recorded by LG&E.

11. On Schedule C, LG&E has listed \$26,698 in charges related to strike preparation. A review of the microfiche records revealed an additional \$340.13 in charges related to strike preparation. Provide the following information:

a. A copy of document number 891200365-0001, transaction recorded in December 1989, Account Nos. 3-921002-476-476 and 3-921003-476-476. Include all supporting information.

b. Indicate how frequently LG&E normally undergoes strike preparation.

c. Explain why these expenses for strike preparation represent a recurring, on-going transaction.

d. Explain why the costs of the aluminum cots and blankets were expensed rather than capitalized.

12. On Schedule C, LG&E has listed \$13,078.34 in charges from the Balfour Company for LG&E stationary and letterhead. A review of the microfiche records revealed total charges from Balfour Company of approximately \$18,378. Provide the following information:

a. Identify the vendors LG&E utilized during the test year who provided stationary. The microfiche records indicate at least one additional vendor, Coats Engraving Company, Inc., with charges totalling \$4,233.66.

b. Explain in detail how the level of stationary charges incurred in the test year represent the normal, on-going level of expenses.

13. Provide an explanation of the charges identified as the Illinois Basin Study on Schedule C. Include a description of the nature and purpose of this study and a description of the benefits to LG&E and its ratepayers. Indicate whether this transaction is of a recurring nature.

14. On Schedule C, LG&E has listed \$15,754.26 in charges relating to a management meeting. Provide an explanation of the purpose of this meeting and why it is reasonable to include these charges for rate-making purposes.

15. Concerning the Two User Group Membership Fees with the DEC Corporation, provide an explanation of the purpose of this membership and why it is reasonable to include these charges for rate-making purposes.

16. Provide a copy of LG&E's policies regarding employee membership in professional organizations and the payment of the membership dues by LG&E.

17. Identify each of the organizations listed below. Provide a description of the nature of each organization, the total amount of dues paid to each organization, the accounts the dues payments were recorded in, and explain why it is reasonable

to include membership dues in the organization for rate-making purposes.

- a. A.S.H.R.A.E.
- b. American Compensation Association.
- c. American Institute of Certified, see document number 890755730-0001, July 1989.
- d. American Society of Safety, see document number 890538568-0001, May 1989.
- e. American Society of Corporate, see document number 890755644-0001, July 1989.
- f. American Society for Training.
- g. A.S.I.S.
- h. A.P.I.C.S.
- i. A.S.M.
- j. A.S.U.G.
- k. Construction Specifications.
- l. Data Processing Management.
- m. EDP Auditors Association, Inc.
- n. Electrical Women's Roundtable.
- o. Financial Executives Institute.
- p. Focus Louisville Alumni Group.
- q. Gas Research Institute.
- r. Guide International.
- s. Institute of Internal Auditors.
- t. Kentuckiana Cash Management.
- u. Kentuckiana Data Processing Association.

v. Kentuckiana Construction Use, see document number
891204781-0001, December 1989.

w. Kentucky Bar Association.

x. Kentucky State Board of Accountancy.

y. Kentucky Safety & Health Network.

z. Kentucky Society of Certified, see document number
890761712-0001, July 1989.

aa. K.M.S.D.C.

ab. Leadership Louisville.

ac. Leadership Kentucky Alumni.

ad. Louisville Chapter - T.E.I., see document number
900111043-0001, January 1990.

ae. Louisville Personnel Association.

af. Louisville Business, see document number
890648529-0001, June 1989.

ag. M.S.T.A.

ah. National Association of, see document number
900108281-0001, January 1990.

ai. National Association of Accountant, see document
number 900218745-0001, February 1990.

aj. N.C.P.I.

ak. Ohio Electric Utility Institute.

al. Public Relations Society of, see document number
891202014-0001, December 1989.

am. Purchasing Management.

an. Society for Human Resource.

ao. Southern Gas Association.

ap. The Ohio River Basin Consortium.

aq. The Securities Transfer Association.

18. For the clubs listed below, provide an explanation of why LG&E has paid the individual memberships and why this expense should be included for rate-making purposes. Include the total amount of memberships paid to each club and indicate the accounts the payments were recorded in.

a. Kiwanis Club of Louisville.

b. The Louisville Jaycees.

c. Rotary Club.

19. The microfiche records indicate that LG&E paid membership dues to the American Gas Association ("AGA"). Provide the following information:

a. A copy of document number 891190740-0001, transaction recorded in November 1989, Account No. 3-921001-200-200. Include all supporting information.

b. Identify the total amount of dues paid to the AGA during the test year.

c. Identify the benefits directly received by LG&E's ratepayers from membership in AGA.

20. Provide a copy of LG&E's policies and procedures concerning the issuance and use of company credit cards. Include the policy concerning the personal use of company credit cards and explain how employee reimbursement of personal expenses are processed.

21. The microfiche records indicate that \$1,381.55 was paid in the test year to American Express as membership fees and dues. Provide the following information:

a. A copy of document number 890866129-0001, transaction recorded in August 1989, Account No. 3-921001-001-001 and document number 891192441-0001, transaction recorded in November 1989, Account No. 3-921001-001-001. Include all supporting information.

b. A listing of LG&E's officers and employees who have received and/or utilize one of it's American Express cards.

22. The review of the microfiche records indicated that several subscriptions were paid for by LG&E during the test year. For each of the vendors listed below, describe the nature of the publication, the benefit to LG&E of the subscription, and why it would be reasonable to include the subscription cost for rate-making purposes.

- a. American Metal Market.
- b. American Management Association.
- c. Financial Executives Institute.
- d. Louisville Magazine.
- e. Oliphant Washington Service.
- f. The Bureau of National Affairs.
- g. The Henry County Local.
- h. The Record.
- i. The Sentinel-News.
- j. The Times-Argus.
- k. The Trimble Banner Democrat.

23. The review of the microfiche records indicated that LG&E personnel attended several conferences, seminars, and meetings sponsored or affiliated with the Edison Electric Institute. For each of the conferences listed below, describe the nature of the conference, the benefit received by LG&E from its personnel's attendance, the benefit received by LG&E's ratepayers from the conference, and why the expense of the conference is reasonable to include for rate-making purposes.

- a. Chief Executive Conference.
- b. Executive Management Update Meeting.
- c. Internal Auditing Committee.
- d. Senior Middle Management.
- e. Tax Committee Meeting.
- f. Tax School.
- g. Budgeting & Finance.
- h. Environmental Management Systems Assessment.
- i. Safety & Industrial Health Meeting.
- j. M.M.P. Meeting.
- k. Strategic Planning.
- l. Affirmative Action Conference.
- m. Risk Management Meeting.
- n. Compensation & Benefits Conference.
- o. Labor Relations Conference.
- p. Chief Accounting Officers Conference.
- q. Human Resource Workshop.
- r. P.D.P. Training.

24. For each of the transactions listed below, provide a detailed explanation of why it was proper to record the charge in Account No. 921 and why the charge should be included for rate-making purposes.

a. Reupholstering work performed by the A. C. Upholstery Company in May and June of 1989.

b. Horticulture services for each month of the test year provided by Anything Groes, Inc.

c. An advertisement sponsorship with Business First of Louisville in October 1989.

d. Advertisement expense with Fessel, Siegfriedt & Moeller in February and April of 1990.

e. Valley High Press Conference in October 1989.

25. The microfiche records indicate LG&E paid Arthur Andersen & Company \$12,292 for "Method/1 Maintenance" in June and July of 1989. Provide a description of this service, indicating whether this transaction is of a recurring nature, and explain why it should be included for rate-making purposes.

26. Concerning dues paid for membership in chambers of commerce, provide the following information:

a. Explain why it is appropriate to include membership dues for LG&E in the Louisville and Oldham County Chambers of Commerce for rate-making purposes.

b. Explain why LG&E paid for 12 individual memberships in the Louisville Chamber of Commerce. Include an explanation of why these membership dues should be included for rate-making purposes.

c. Explain why LG&E paid for approximately 3 individual memberships in the Oldham County Chamber of Commerce. Include an explanation of why these membership dues should be included for rate-making purposes.

27. The review of the microfiche records indicates that LG&E has reimbursed employees for expenses incurred with their attendance at professional organization dinner meetings. Provide an explanation as to why it is appropriate to include for rate-making purposes the expenses for professional organization dinner meetings.

28. On June 1, 1989, Robert L. Royer became the Chairman of LG&E's Board of Directors. Until this time he had been President and Chief Executive Officer. Mr. Royer retired as Chairman of the Board of Directors on February 1, 1990. The review of the microfiche records during this period for Account No. 3-921001-001-001 indicates that LG&E paid \$3,298.93 for expense account reimbursements. Provide the following information:

a. Explain LG&E's policies concerning the reimbursement of board of director's expenses. Indicate the account used to record these reimbursements.

b. Explain why Mr. Royer's expense account reimbursements were recorded in 921 while he was Chairman of the board.

c. Explain why these expenses should be included for rate-making purposes.

29. The microfiche records show that LG&E paid \$8,021.60 for airline tickets for spouses and family members of LG&E officers

during the test year. Provide a detailed explanation as to why the cost of airline tickets for spouses and family members should be included for rate-making purposes.

30. For each of the documents identified below, provide a description of the transaction, indicate whether this transaction is of a recurring nature, and explain why this expense should be included for rate-making purposes.

a. Document number 900220136-0001, February 1990, Account No. 3-921002-102-102-913.

b. Document number 891193063-0001, November 1989, Account No. 3-921002-565-565.

c. Document number 890541372-0001, May 1989, Account No. 3-921002-685-685.

d. Document number 891195116-0001, November 1989, Account No. 3-921001-601-601.

e. Document number 890538566-0001, May 1989, Account No. 3-921002-640-640-912.

f. Document number 890975602-0001, September 1989, Account No. 3-921002-601-601.

g. Document number 900435484-0001, April 1990, Account No. 3-921001-695-695.

h. Document number 900220121-0001, February 1990, Account No. 3-921002-564-564.

i. Document number 891205276-0001, December 1989, Account No. 3-921002-499-499.

j. Document number 890870847-0001, August 1989, Account No. 3-921002-103-103.

k. Document number 900330076-0001, March 1990, Account No. 3-921002-695-695.

l. Document number 891085994-0001, October 1989, Account No. 3-921003-630-630.

m. Document number 900440759-0001, April 1990, Account No. 3-921003-661-661.

n. Document number 900441568-0001, April 1990, Account No. 3-921002-661-661.

o. Document number 890865854-0001, August 1989, Account No. 3-921004-569-569.

p. Document number 890980730-0001, September 1989, Account No. 3-921001-102-102-913.

q. Document number 890981452-0001, October 1989, Account No. 3-921003-103-103.

r. Document number 900441503-0001, April 1990, Account No. 3-921002-601-601.

s. Document number 890654244-0001, July 1989, Account No. 3-921003-601-601.

t. Document number 900331214, March 1990, Account No. 3-921001-200.

u. Document number 891197848-0001, November 1989, Account No. 3-921001-001-001.

v. Document number 890981691-0002, September 1989, Account No. 3-921003-103-103.

w. Document number 891086153-0001, October 1989, Account No. 3-921001-601-601.

x. Document number 891083438-0001, October 1989,
Account No. 3-921001-601-601.

y. Document number 891088990-0001, October 1989,
Account No. 3-921003-630-630.

z. Document number 900109425-0001, January 1990,
Account No. 3-921001-001-001.

aa. Document number 900110464-0001, January 1990,
Account No. 3-921001-100-100.

ab. Document number 890870590-0001, August 1989,
Account No. 3-921002-662-662.

ac. Document number 900112280-0001, January 1990,
Account No. 3-921001-001-135.

31. Throughout the microfiche records there are transactions where the vendor is identified only as "One Time Vendor". Several of the transactions deal with subscriptions. For each of the listed documents below, provide the vendor, a description of the publication, and an explanation of why it is reasonable to include this expense for rate-making purposes.

a. Document number 890869044-0001, August 1989,
Account No. 3-921001-100-100.

b. Document number 900108289-0001, January 1990,
Account No. 3-921001-800-800.

c. Document number 891206310-0001, December 1989,
Account No. 3-921001-800-800.

d. Document number 900441214-0001, April 1990, Account
No. 3-921003-135-135.

e. Document number 891206738-0001, December 1989,
Account No. 3-921001-800-800.

f. Document number 891086888-0001, October 1989,
Account No. 3-921001-800-800.

g. Document number 890976157-0001, September 1989,
Account No. 3-921001-100-100.

32. Included in the "One Time Vendor" transactions were several membership and dues payments. For each of the documents listed below, identify the organization, provide a description of the nature of the organization, and explain why this transaction should be considered reasonable for rate-making purposes.

a. Document number 891194707-0001, November 1989;
Account No. 3-921002-565-565.

b. Document number 890976010-0001, September 1989,
Account No. 3-921002-619-619.

c. Document number 900110196-0001, January 1990,
Account No. 3-921002-650-650.

d. Document number 891195913-0001, November 1989,
Account No. 3-921003-104-104.

e. Document number 900438392-0001, April 1990, Account
No. 3-921002-03-564-564.

f. Document number 890540231-0001, May 1989, Account
No. 3-921002-135-135.

33. Contained in the "One Time Vendor" transactions are several items which do not appear to be appropriate for recording in Account No. 921. For each of the listed documents below, identify the vendor, describe the transaction, explain why it is

appropriate to record the transaction in this account, and explain why it is reasonable to include this expense for rate-making purposes.

a. Document number 890871937-0001, August 1989, Account No. 3-921001-100-100.

b. Document number 900437054-0001, April 1990, Account No. 3-921003-497-497.

c. Document number 890976161-0001, September 1989, Account No. 3-921003-103-103.

d. Document number 890544008-0001, May 1989, Account No. 3-921001-601-601.

e. Document number 900113184-0001, January 1990, Account No. 3-921001-001-135.

f. Document number 900112302-0001, January 1990, Account No. 3-921001-001-135.

g. Document number 900112284-0001, January 1990, Account No. 3-921001-001-135.

h. Document number 891082865-0001, October 1989, Account No. 3-921001-601-601.

i. Document number 890647302-0001, June 1989, Account No. 3-921001-601-601.

j. Document number 900113861-0001, January 1990, Account No. 3-921001-001-001.

k. Document number 891206238-0001, December 1989, Account No. 3-921001-001-001.

l. Document number 891190831-0001, November 1989, Account No. 3-921002-652-652.

34. During the test year LG&E has recorded in Account No. 3-921006-662-662 numerous charges dealing with computer software, parts, and components. The total charges recorded in this account for the test year exceed \$200,000. Based on Mr. Fowler's testimony, it would appear these charges have been expensed during the test year. Provide the following information:

a. Copies of LG&E policy concerning the capitalization of small dollar items of equipment.

b. Explain why it would be appropriate to expense these types of purchases rather than capitalizing them.

c. Indicate whether any of these charges were subsequently capitalized instead of expensed.

Done at Frankfort, Kentucky, this 28th day of March, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director